The short-term funding bill passed by Congress to end the 3-day government shutdown contains two employee benefits-related provisions that are of interest to employers. The bill (1) delays the tax on high-cost health plans (the "Cadillac Tax") until 2022, and (2) suspends the Health Insurance Tax (HIT) (paid by health insurance companies) for 2019.

The Cadillac Tax
The Affordable Care Act (ACA) created a new excise tax applicable to high-cost health plans, commonly called the Cadillac Tax. Employers who sponsor health plans that have an annual cost that exceeds an amount defined by the law must pay a 40% tax on the excess plan costs. The tax was originally scheduled to take effect in 2018, but in 2016 Congress delayed the tax until 2020. The government funding bill passed by Congress delays the tax an additional two years to 2022.

The Health Insurance Tax
The ACA also includes a tax that is imposed on health insurance carriers, which obviously has an impact on the insurance rates paid by employers. The HIT will be imposed on carriers for 2018, but the new legislation suspends the tax for 2019.

However, the tax paid by any particular carrier is based on a complex formula that takes into account the size of the carrier, its market share, and other factors, so there is no way to know exactly how much tax each carrier will pay. Carriers take different approaches to communicating the HIT to employers. Some provide an estimate of the amount of tax they expect to pay and present that as a separate line item in the group insurance bill. Others simply treat the HIT as part of their administrative expenses, as they would with any other corporate tax liability. In any case, the suspension of the tax for 2019 will have a positive impact on the carriers’ overall costs, which should be reflected in the rates charged to employers after 2018.

This alert was prepared for Woodruff-Sawyer by Benefit Comply.